

TOWN OF ORANGE, MASSACHUSETTS

***REPORT ON EXAMINATION OF
BASIC FINANCIAL STATEMENTS***

FISCAL YEAR ENDED JUNE 30, 2010

TOWN OF ORANGE, MASSACHUSETTS

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS

JUNE 30, 2010

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Independent Auditors' Report

To the Honorable Board of Selectmen
Town of Orange, Massachusetts

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We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Orange, Massachusetts, as of and for the fiscal year ended June 30, 2010, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Orange, Massachusetts' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Orange, Massachusetts, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2011, on our consideration of the Town of Orange, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis, located on the following pages, and schedule of revenues, expenditures and changes in fund balance – general fund – budgetary basis, retirement system schedule of funding progress, retirement system schedule of employer contributions, other postemployment benefits schedule of funding progress, and other postemployment benefits actuarial methods and assumptions, located after the notes to the basic financial statements, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Wakefield, Massachusetts
March 23, 2011

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Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the Town of Orange, Massachusetts, we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2010. We encourage readers to consider the information presented in this report. All amounts, unless otherwise indicated, are expressed in whole dollars.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town of Orange's basic financial statements. These basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The government-wide financial statements provide both long and short-term information about the Town as a whole. The fund financial statements focus on the individual components of the Town government, reporting the Town's operations in more detail than the government-wide statements. Both presentations (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison and enhance the Town's accountability. An additional part of the basic financial statements are the notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of finances, in a manner similar to private-sector business.

The *statement of net assets* presents information on all assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities include general government, public safety, education, public works, airport, human services, culture and recreation, and interest. The business-type activities include the activities of the Water and Sewer Departments.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on *near-term inflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Town adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The Town's general fund and the Tully Fire Station fund are considered major funds for presentation purposes. These major funds are presented in separate columns in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances. The remaining governmental funds are aggregated and shown as nonmajor governmental funds.

Proprietary funds. The Town maintains two types of propriety funds.

Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses enterprise funds to account for its Water and Sewer Departments.

Internal service funds are an accounting device used to accumulate and allocate costs internally among various functions. The Town uses its internal service fund to account for health insurance activities.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for propriety funds.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Town of Orange's governmental assets exceeded liabilities for governmental activities by \$24.7 million and the business-type activities by \$8.0 million at the close of the most recent fiscal year. Key components of the Town's activities are presented below.

Governmental Activities

	2010	2009
Assets:		
Current assets.....	\$ 4,588,799	\$ 5,011,754
Noncurrent assets (excluding capital).....	191,478	240,951
Capital assets.....	<u>25,319,121</u>	<u>23,580,404</u>
Total assets.....	<u>30,099,398</u>	<u>28,833,109</u>
Liabilities:		
Current liabilities (excluding debt).....	2,661,647	1,831,506
Noncurrent liabilities (excluding debt).....	378,795	217,648
Current debt.....	157,154	1,043,234
Noncurrent debt.....	<u>2,199,268</u>	<u>621,422</u>
Total liabilities.....	<u>5,396,864</u>	<u>3,713,810</u>
Net Assets:		
Capital assets net of related debt.....	23,726,195	22,103,811
Restricted.....	1,576,520	1,740,817
Unrestricted.....	<u>(600,181)</u>	<u>1,274,671</u>
Total net assets.....	<u>\$ 24,702,534</u>	<u>\$ 25,119,299</u>

Governmental net assets of \$23.7 million (96%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the net assets of \$1.6 million (6%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets resulted in a (\$600,000) deficit mainly relating to the cumulative effect of recording \$1.6 million of other postemployment benefit OPEB liabilities through June 30, 2010.

	2010	2009
Program revenues:		
Charges for services.....	\$ 3,526,082	\$ 3,426,571
Operating grants and contributions.....	11,049,608	10,008,571
Capital grants and contributions.....	7,679	13,591
General Revenues:		
Real estate and personal property taxes.....	7,320,301	7,157,246
Motor vehicle and other excise taxes.....	583,563	562,573
Penalties and interest on taxes.....	89,473	102,213
Payments in lieu of taxes.....	3,343	3,343
Grants and contributions not restricted to specific programs.....	1,522,933	1,906,217
Unrestricted investment income.....	43,887	47,570
Miscellaneous.....	121,056	79,599
Total revenues.....	24,267,925	23,307,494
Expenses:		
General Government.....	2,431,757	2,270,263
Public Safety.....	3,869,986	3,401,312
Education.....	14,993,347	15,098,392
Public Works.....	2,048,964	2,112,355
Airport.....	235,018	213,140
Human Services.....	326,316	225,750
Culture and Recreation.....	504,624	514,730
Interest.....	274,678	283,872
Total expenses.....	24,684,690	24,119,814
Excess (Deficiency) before transfers.....	(416,765)	(812,320)
Transfers.....	-	(225,000)
Change in net assets.....	\$ (416,765)	\$ (1,037,320)

Governmental net assets decreased during fiscal year 2010 by (\$417,000). The decrease includes approximately \$806,000 of current year OPEB expenses. Otherwise, the Town raised sufficient revenues to cover its expenses for the fiscal year.

Business-type Activities

Water Fund

	<u>2010</u>		<u>2009</u>
Assets:			
Current assets.....	\$ 843,221	\$	764,797
Capital assets.....	<u>5,606,532</u>		<u>5,709,593</u>
Total assets.....	<u>6,449,753</u>		<u>6,474,390</u>
Liabilities:			
Current liabilities (excluding debt).....	64,220		25,109
Non-current liabilities (excluding debt).....	<u>51,873</u>		<u>26,334</u>
Total liabilities.....	<u>116,093</u>		<u>51,443</u>
Net Assets:			
Capital assets net of related debt.....	5,606,532		5,709,593
Unrestricted.....	<u>727,128</u>		<u>713,354</u>
Total net assets.....	<u>\$ 6,333,660</u>	\$	<u>\$ 6,422,947</u>

Water Fund net assets of \$5.6 million (89%) represent investments in capital assets net of related debt. The remaining \$727,000 (11%) is available to be used for the ongoing operation of the Town's Water department.

As shown in the following table, there was a decrease of approximately (\$89,000) in net assets compared to an increase of approximately \$132,000 in the prior year. The key component of the change relates to the \$225,000 transfer in from the receipts reserved special revenue fund in the prior year. Otherwise, both revenues and expenses increased by approximately 10%.

	<u>2010</u>		<u>2009</u>
Program revenues:			
Charges for services.....	\$ 642,440	\$	573,904
General Revenues:			
Investment income.....	<u>3,452</u>		<u>5,937</u>
Total revenues.....	<u>645,892</u>		<u>579,841</u>
Expenses:			
Water.....	<u>735,179</u>		<u>672,671</u>
Excess (Deficiency) before transfers.....	(89,287)		(92,830)
Transfers.....	<u>-</u>		<u>225,000</u>
Change in net assets.....	<u>\$ (89,287)</u>	\$	<u>\$ 132,170</u>

Sewer Fund

	<u>2010</u>	<u>2009</u>
Assets:		
Current assets..... \$	239,133	\$ 231,481
Noncurrent assets (excluding capital).....	21,599	24,461
Capital assets.....	<u>1,978,209</u>	<u>2,032,935</u>
Total assets.....	<u>2,238,941</u>	<u>2,288,877</u>
Liabilities:		
Current liabilities (excluding debt).....	25,735	19,305
Non-current liabilities (excluding debt).....	35,050	17,826
Current debt.....	29,944	29,644
Noncurrent debt.....	<u>517,412</u>	<u>547,356</u>
Total liabilities.....	<u>608,141</u>	<u>614,131</u>
Net Assets:		
Capital assets net of related debt.....	1,455,314	1,483,363
Unrestricted.....	<u>175,486</u>	<u>191,383</u>
Total net assets..... \$	<u><u>1,630,800</u></u>	<u><u>1,674,746</u></u>

Sewer Fund net assets of \$1.5 million (89%) represent investments in capital assets net of related debt. The remaining \$175,000 (11%) is available to be used for the ongoing operation of the Town's Sewer department.

As shown in the following table, there was a decrease in net assets of approximately (\$44,000) in both 2010 and 2009.

	<u>2010</u>	<u>2009</u>
Program revenues:		
Charges for services..... \$	513,054	\$ 468,000
Operating grants and contributions.....	2,791	3,385
General Revenues:		
Investment income.....	<u>143</u>	<u>66</u>
Total revenues.....	<u>515,988</u>	<u>471,451</u>
Expenses:		
Sewer.....	<u>559,934</u>	<u>515,183</u>
Change in net assets..... \$	<u><u>(43,946)</u></u>	<u><u>(43,732)</u></u>

Financial Analysis of the Government's Funds

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of approximately \$3.1 million, an increase of approximately \$947,000 from the prior year. The increase is mainly attributable to the proceeds long-term borrowings.

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$392,000, while total fund balance was \$410,000.

The Tully Fire Station fund is a capital project fund being utilized for the construction of a new fire station. The construction project has been funded with the issuance of a \$1,335,000 bond. Current year expenses, which have virtually completed the project, amounted to approximately \$979,000.

General Fund Budgetary Highlights

The Town of Orange adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget. Actual revenues were more than budgeted amounts by approximately \$132,000. Actual expenditures, including carryovers, were also less than budgeted amounts by approximately \$189,000.

Capital Asset and Debt Administration

In conjunction with the operating budget, the Town annually prepares capital budgets for the upcoming fiscal year. Major capital additions during the year relate mainly to the construction of the new Tully fire station and to various infrastructure upgrades. Total additions for the Governmental and Business-type Activities amounted to \$3.5 million and \$42,000, respectively.

Outstanding long-term debt of the general government, as of June 30, 2010, totaled \$2.4 million, of which approximately \$1.3 million is related to the construction of a new fire station, \$515,000 is for the landfill, \$350,000 is for the wastewater management plan and the balance of \$235,000 is for various other governmental projects. In addition the Sewer Enterprise fund has approximately \$547,000 of outstanding long-term debt related to funding various sewer projects.

Please refer to the notes to the financial statements for further discussion of the major capital and debt activity.

Requests for Information

This financial report is designed to provide a general overview of the Town of Orange's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Town Accountant at 6 Prospect Street, Orange, MA 01364.

Basic Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2010

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 2,671,662	\$ 757,697	\$ 3,429,359
Investments.....	126,160	-	126,160
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	165,685	-	165,685
Tax liens.....	256,359	-	256,359
Motor vehicle and other excise taxes.....	62,011	-	62,011
User fees.....	-	321,795	321,795
Departmental and other.....	499,105	-	499,105
Special assessments.....	79,545	-	79,545
Intergovernmental.....	504,856	2,862	507,718
Working capital deposit.....	114,822	-	114,822
Tax foreclosures.....	108,594	-	108,594
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	-	21,599	21,599
Loans.....	191,478	-	191,478
Capital assets, net of accumulated depreciation.....	25,319,121	7,584,741	32,903,862
TOTAL ASSETS.....	30,099,398	8,688,694	38,788,092
LIABILITIES			
CURRENT:			
Warrants payable.....	451,830	57,844	509,674
Accrued payroll.....	278,305	8,745	287,050
Health claims payable.....	8,712	-	8,712
Capital lease obligations.....	90,444	-	90,444
Compensated absences.....	194,820	23,366	218,186
Bonds and notes payable.....	157,154	29,944	187,098
NONCURRENT:			
Capital lease obligations.....	378,795	-	378,795
Other postemployment benefits.....	1,637,536	86,923	1,724,459
Bonds and notes payable.....	2,199,268	517,412	2,716,680
TOTAL LIABILITIES.....	5,396,864	724,234	6,121,098
NET ASSETS			
Invested in capital assets, net of related debt.....	23,726,195	7,061,846	30,788,041
Restricted for:			
Loans.....	191,478	-	191,478
Permanent funds:			
Expendable.....	253,008	-	253,008
Nonexpendable.....	679,062	-	679,062
Gifts and grants.....	452,972	-	452,972
Unrestricted.....	(600,181)	902,614	302,433
TOTAL NET ASSETS.....	\$ 24,702,534	\$ 7,964,460	\$ 32,666,994

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
<i>Governmental Activities:</i>					
General government.....	\$ 2,431,757	\$ 1,603,222	\$ 71,705	\$ -	\$ (756,830)
Public safety.....	3,869,986	945,196	368,026	-	(2,556,764)
Education.....	14,993,347	520,923	8,915,559	-	(5,556,865)
Public works.....	2,048,964	276,454	465,133	7,679	(1,299,698)
Airport.....	235,018	93,812	1,093,473	-	952,267
Human services.....	326,316	52,418	72,168	-	(201,730)
Culture and recreation.....	504,624	34,057	63,544	-	(407,023)
Interest.....	274,678	-	-	-	(274,678)
Total Governmental Activities.....	<u>24,684,690</u>	<u>3,526,082</u>	<u>11,049,608</u>	<u>7,679</u>	<u>(10,101,321)</u>
<i>Business-Type Activities:</i>					
Water.....	735,179	642,440	-	-	(92,739)
Sewer.....	<u>559,934</u>	<u>513,054</u>	<u>2,791</u>	-	<u>(44,089)</u>
Total Business-Type Activities.....	<u>1,295,113</u>	<u>1,155,494</u>	<u>2,791</u>	-	<u>(136,828)</u>
Total Primary Government.....	<u>\$ 25,979,803</u>	<u>\$ 4,681,576</u>	<u>\$ 11,052,399</u>	<u>\$ 7,679</u>	<u>\$ (10,238,149)</u>

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2010

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net assets:			
Net (expense) revenue from previous page.....	\$ (10,101,321)	\$ (136,828)	\$ (10,238,149)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	7,320,301	-	7,320,301
Motor vehicle and other excise taxes.....	583,563	-	583,563
Penalties and interest on taxes.....	89,473	-	89,473
Payments in lieu of taxes.....	3,343	-	3,343
Grants and contributions not restricted to specific programs.....	1,522,933	-	1,522,933
Unrestricted investment income.....	43,887	3,595	47,482
Miscellaneous.....	121,056	-	121,056
Total general revenues.....	9,684,556	3,595	9,688,151
 Change in net assets.....	 (416,765)	 (133,233)	 (549,998)
<i>Net Assets:</i>			
Beginning of year.....	25,119,299	8,097,693	33,216,992
End of year.....	\$ 24,702,534	\$ 7,964,460	\$ 32,666,994

See notes to basic financial statements.

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2010

ASSETS	General	Tully Fire Station	Nonmajor Governmental Funds	Total Governmental Funds
Cash and cash equivalents.....	\$ 116,054	\$ 26,896	\$ 2,528,712	\$ 2,671,662
Investments.....	-	-	126,160	126,160
Receivables, net of uncollectibles:				
Real estate and personal property taxes.....	165,685	-	-	165,685
Tax liens	256,359	-	-	256,359
Motor vehicle and other excise taxes.....	62,011	-	-	62,011
Departmental and other.....	372,042	-	-	372,042
Special assessments.....	53,275	-	26,270	79,545
Intergovernmental.....	-	-	504,856	504,856
Loans.....	-	-	191,478	191,478
Tax foreclosures.....	108,594	-	-	108,594
Due from other funds.....	564,524	-	-	564,524
TOTAL ASSETS.....	\$ 1,698,544	\$ 26,896	\$ 3,377,476	\$ 5,102,916
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Warrants payable.....	\$ 235,947	\$ 3,100	\$ 212,783	\$ 451,830
Accrued payroll.....	94,938	-	183,367	278,305
Deferred revenues.....	957,986	-	293,932	1,251,918
TOTAL LIABILITIES.....	1,288,871	3,100	690,082	1,982,053
FUND BALANCES:				
Reserved for:				
Encumbrances and continuing appropriations.....	17,956	-	-	17,956
Perpetual permanent funds.....	-	-	679,062	679,062
Unreserved:				
Undesignated, reported in:				
General fund.....	391,717	-	-	391,717
Special revenue funds.....	-	-	1,484,863	1,484,863
Capital projects funds.....	-	23,796	270,461	294,257
Permanent funds.....	-	-	253,008	253,008
TOTAL FUND BALANCES.....	409,673	23,796	2,687,394	3,120,863
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 1,698,544	\$ 26,896	\$ 3,377,476	\$ 5,102,916

See notes to basic financial statements.

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET ASSETS**

FISCAL YEAR ENDED JUNE 30, 2010

Total governmental fund balances.....		\$ 3,120,863
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		25,319,121
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....		1,251,918
Internal service funds are used by management to account for retirees' health insurance and workers' compensation activities.		
The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.....		(331,351)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds		
Bonds and notes payable.....	(2,356,422)	
Capital lease obligations.....	(469,239)	
Compensated absences.....	(194,820)	
Other postemployment benefits obligation.....	<u>(1,637,536)</u>	
Net effect of reporting long-term liabilities.....		<u>(4,658,017)</u>
Net assets of governmental activities.....		<u>\$ 24,702,534</u>

See notes to basic financial statements.

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FISCAL YEAR ENDED JUNE 30, 2010

	General	Tully Fire Station	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:				
Real estate and personal property taxes, net of tax refunds.....	\$ 7,194,799	\$ -	\$ -	\$ 7,194,799
Tax liens.....	60,825	-	-	60,825
Motor vehicle and other excise taxes.....	575,703	-	-	575,703
Charges for services.....	140,557	-	100,905	241,462
Penalties and interest on taxes.....	89,473	-	-	89,473
Payments in lieu of taxes.....	3,343	-	-	3,343
Intergovernmental.....	8,652,931	-	5,005,575	13,658,506
Departmental and other.....	805,579	-	376,428	1,182,007
Contributions.....	-	-	141,084	141,084
Investment income.....	8,669	-	35,191	43,860
Miscellaneous.....	279,299	-	-	279,299
TOTAL REVENUES.....	17,811,178	-	5,659,183	23,470,361
EXPENDITURES:				
Current:				
General government.....	753,828	-	1,421,386	2,175,214
Public safety.....	2,207,366	979,169	492,453	3,678,988
Education.....	8,382,103	-	2,038,763	10,420,866
Public works.....	803,162	-	464,927	1,268,089
Airport.....	135,208	-	1,111,409	1,246,617
Human services.....	191,036	-	65,997	257,033
Culture and recreation.....	247,559	-	80,549	328,108
Pension benefits.....	1,901,115	-	-	1,901,115
Employee benefits.....	2,179,610	-	-	2,179,610
State and county charges.....	591,179	-	-	591,179
Debt service:				
Principal.....	208,234	-	-	208,234
Interest.....	274,678	-	-	274,678
TOTAL EXPENDITURES.....	17,875,078	979,169	5,675,484	24,529,731
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(63,900)	(979,169)	(16,301)	(1,059,370)
OTHER FINANCING SOURCES (USES):				
Proceeds from bonds and notes.....	-	1,335,000	400,000	1,735,000
Capital lease financing.....	271,073	-	-	271,073
Transfers in.....	58,111	-	25,760	83,871
Transfers out.....	-	-	(83,871)	(83,871)
TOTAL OTHER FINANCING SOURCES (USES).....	329,184	1,335,000	341,889	2,006,073
NET CHANGE IN FUND BALANCES.....	265,284	355,831	325,588	946,703
FUND BALANCES AT BEGINNING OF YEAR.....	144,389	(332,035)	2,361,806	2,174,160
FUND BALANCES AT END OF YEAR.....	\$ 409,673	\$ 23,796	\$ 2,687,394	\$ 3,120,863

See notes to basic financial statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

FISCAL YEAR ENDED JUNE 30, 2010

Net change in fund balances - total governmental funds.....	\$	946,703
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital outlay.....	3,161,321	
Depreciation expense.....	<u>(1,422,604)</u>	
Net effect of reporting capital assets.....		1,738,717
<p>Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.....</p>		
		(207,295)
<p>The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.</p>		
Capital lease financing.....	(271,073)	
Principal payments on capital leases.....	66,736	
Proceeds from issuance of bonds.....	(1,735,000)	
Debt service principal payments.....	<u>208,234</u>	
Net effect of reporting long-term debt.....		(1,731,103)
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>		
Net change in compensated absences accrual.....	(19,370)	
Net change in other postemployment benefits obligation.....	<u>(805,697)</u>	
Net effect of recording long-term liabilities and amortizing deferred losses.....		(825,067)
<p>Internal service funds are used by management to account for health insurance and workers' compensation activities.</p>		
The net activity of internal service funds is reported with Governmental Activities.....		<u>(338,720)</u>
Change in net assets of governmental activities.....	\$	<u><u>(416,765)</u></u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

JUNE 30, 2010

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water Fund	Sewer Fund	Total	
ASSETS				
CURRENT:				
Cash and cash equivalents.....	\$ 689,323	\$ 68,374	\$ 757,697	\$ -
Receivables, net of allowance for uncollectibles:				
User fees.....	153,898	167,897	321,795	-
Departmental and other.....	-	-	-	127,063
Intergovernmental.....	-	2,862	2,862	-
Working capital deposit.....	-	-	-	114,822
Total current assets.....	843,221	239,133	1,082,354	241,885
NONCURRENT:				
Receivables, net of allowance for uncollectibles:				
Intergovernmental.....	-	21,599	21,599	-
Capital assets, net of accumulated depreciation.....	5,606,532	1,978,209	7,584,741	-
Total noncurrent assets.....	5,606,532	1,999,808	7,606,340	-
TOTAL ASSETS.....	6,449,753	2,238,941	8,688,694	241,885
LIABILITIES				
CURRENT:				
Warrants payable.....	46,949	10,895	57,844	-
Accrued payroll.....	5,104	3,641	8,745	-
Dental claims payable.....	-	-	-	8,712
Due to other funds.....	-	-	-	564,524
Compensated absences.....	12,167	11,199	23,366	-
Bonds and notes payable.....	-	29,944	29,944	-
Total current liabilities.....	64,220	55,679	119,899	573,236
NONCURRENT:				
Other postemployment benefits.....	51,873	35,050	86,923	-
Bonds and notes payable.....	-	517,412	517,412	-
Total noncurrent liabilities.....	51,873	552,462	604,335	-
TOTAL LIABILITIES.....	116,093	608,141	724,234	573,236
NET ASSETS				
Invested in capital assets, net of related debt.....	5,606,532	1,455,314	7,061,846	-
Unrestricted.....	727,128	175,486	902,614	(331,351)
TOTAL NET ASSETS.....	\$ 6,333,660	\$ 1,630,800	\$ 7,964,460	\$ (331,351)

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2010

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water Fund	Sewer Fund	Total	
OPERATING REVENUES:				
Employee contributions	\$ -	\$ -	\$ -	\$ 694,538
Employer contributions	-	-	-	2,019,315
Charges for services	642,440	513,054	1,155,494	-
Stop loss recoveries.....	-	-	-	310,293
TOTAL OPERATING REVENUES	642,440	513,054	1,155,494	3,024,146
OPERATING EXPENSES:				
Cost of services and administration	507,479	474,755	982,234	-
Utilities.....	75,117	-	75,117	-
Repairs and maintenance.....	32,759	-	32,759	-
Depreciation.....	119,824	79,526	199,350	-
Employee benefits	-	-	-	3,362,893
TOTAL OPERATING EXPENSES	735,179	554,281	1,289,460	3,362,893
OPERATING INCOME.....	(92,739)	(41,227)	(133,966)	(338,747)
NONOPERATING REVENUES (EXPENSES):				
Investment income.....	3,452	143	3,595	27
Interest expense.....	-	(5,653)	(5,653)	-
MWPAT interest subsidy.....	-	2,791	2,791	-
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	3,452	(2,719)	733	27
CHANGE IN NET ASSETS.....	(89,287)	(43,946)	(133,233)	(338,720)
NET ASSETS AT BEGINNING OF YEAR.....	6,422,947	1,674,746	8,097,693	7,369
NET ASSETS AT END OF YEAR.....	\$ 6,333,660	\$ 1,630,800	\$ 7,964,460	\$ (331,351)

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2010

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water Fund	Sewer Fund	Total	
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>				
Receipts from customers and users.....	\$ 637,532	\$ 502,117	\$ 1,139,649	\$ 694,538
Receipts from interfund services provided.....	-	-	-	1,917,597
Receipts from insurance recoveries.....	-	-	-	310,293
Payments to vendors.....	(324,478)	(295,036)	(619,514)	-
Payments to employees.....	(226,227)	(156,065)	(382,292)	-
Payments for interfund services used.....	-	-	-	(3,270,643)
NET CASH FROM OPERATING ACTIVITIES.....	86,827	51,016	137,843	(348,215)
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>				
Advances from other funds.....	-	-	-	348,188
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	-	-	-	348,188
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>				
Acquisition and construction of capital assets.....	(16,763)	(24,800)	(41,563)	-
Principal payments on bonds and notes.....	-	(29,644)	(29,644)	-
Interest expense.....	-	(2,862)	(2,862)	-
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	(16,763)	(57,306)	(74,069)	-
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>				
Investment income.....	3,452	143	3,595	27
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	73,516	(6,147)	67,369	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	615,807	74,521	690,328	-
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 689,323	\$ 68,374	\$ 757,697	\$ -
<u>RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES:</u>				
Operating income.....	\$ (92,739)	\$ (41,227)	\$ (133,966)	\$ (338,747)
Adjustments to reconcile operating income to net cash from operating activities:				
Depreciation.....	119,824	79,526	199,350	-
Changes in assets and liabilities:				
User fees.....	(4,908)	(13,904)	(18,812)	-
Departmental and other.....	-	-	-	(101,718)
Intergovernmental receivables.....	-	2,967	2,967	-
Working capital deposit.....	-	-	-	262,178
Warrants payable.....	43,355	6,003	49,358	-
Accrued payroll.....	(7,980)	(99)	(8,079)	-
Health claims payable.....	-	-	-	(169,928)
Accrued compensated absences.....	3,736	526	4,262	-
Other postemployment benefits.....	25,539	17,224	42,763	-
Total adjustments.....	179,566	92,243	271,809	(9,468)
NET CASH FROM OPERATING ACTIVITIES.....	\$ 86,827	\$ 51,016	\$ 137,843	\$ (348,215)

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2010

	Private Purpose Trust Funds	Agency Funds
ASSETS		
Cash and cash equivalents.....	\$ 49,964	\$ 22,364
LIABILITIES		
Liabilities due depositors.....	-	22,364
NET ASSETS		
Held in trust for private purposes.....	\$ 49,964	-

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2010

	<u>Private Purpose Trust Funds</u>
<u>ADDITIONS:</u>	
Net investment income:	
Interest.....	\$ <u>206</u>
<u>DEDUCTIONS:</u>	
Educational scholarships.....	<u>1,213</u>
CHANGE IN NET ASSETS.....	(1,007)
NET ASSETS AT BEGINNING OF YEAR.....	<u>50,971</u>
NET ASSETS AT END OF YEAR.....	\$ <u><u>49,964</u></u>

See notes to basic financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of the Town of Orange, Massachusetts (the Town) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant Town accounting policies are described herein.

A. Reporting Entity

The Town is a municipal corporation that is governed by an elected 3 member Board of Selectmen.

For financial reporting purposes, the Town has included all funds, organizations, agencies, boards, commissions and institutions. The Town has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the basic financial statements to be misleading or incomplete. As required by GAAP, these basic financial statements present the Town (the primary government) and its component units. The Town has determined that there are no component units.

B. Government-Wide and Fund Financial Statements*Government-Wide Financial Statements*

The government-wide financial statements (i.e., statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. *Governmental activities*, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are supported primarily by user fees and charges.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and displayed in a single column.

Major Fund Criteria

Major funds must be reported if the following criteria are met:

- If the total assets, liabilities, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least 10 percent of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental or total enterprise funds), *and*
- If the total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding element for all governmental and enterprise funds combined.

Additionally, any other governmental or enterprise fund that management believes is particularly significant to the basic financial statements may be reported as a major fund.

Internal service funds and fiduciary funds are reported by fund type.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Real estate and personal property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of activities demonstrates the degree to which the direct expenses of a particular function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include the following:

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.
- Grants and contributions that are restricted to meeting the operational requirements of a particular function or segment.
- Grants and contributions that are restricted to meeting the capital requirements of a particular function or segment.

Taxes and other items not identifiable as program revenues are reported as general revenues.

For the most part, the effect of interfund activity has been removed from the government-wide financial statements. Exceptions are charges between the general fund and the water enterprise fund. Elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

Fund Financial Statements

Governmental fund financial statements are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

Real estate and personal property tax revenues are considered available if they are collected within 60 days after fiscal year-end. Investment income is susceptible to accrual. Other receipts and tax revenues become measurable and available when the cash is received and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditure driven grants recognize revenue when the qualifying expenditures are incurred and all other grant requirements are met.

The following major governmental funds are reported:

The *general fund* is the primary operating fund. It is used to account for all financial resources, except those that are required to be accounted for in another fund.

The *Tully Fire Station fund* is a capital project fund being utilized for the construction of a new fire station.

The non-major governmental funds consist of other special revenue, capital projects and permanent funds that are aggregated and presented in the *non-major governmental funds* column on the governmental funds financial statements. The following describes the general use of these fund types:

The *special revenue fund* is used to account for the proceeds of specific revenue sources (other than permanent funds or capital projects funds) that are restricted by law or administrative action to expenditures for specified purposes.

The *capital projects fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Enterprise and Trust Funds).

The *permanent fund* is used to account for financial resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

Proprietary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds principle ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The following major proprietary fund is reported:

The *water enterprise fund* is used to account for the water activities.

The *sewer enterprise fund* is used to account for the sewer activities.

Additionally, the following proprietary fund type is reported:

The *internal service fund* is used to account for the financing of services provided by one department to other departments or governmental units. This fund is used to account for risk financing activities related to the self-insured employee health program.

Fiduciary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Fiduciary funds are used to account for assets held in a trustee capacity for others that cannot be used to support the governmental programs.

The following fiduciary fund types are reported:

The *private-purpose trust fund* is used to account for trust arrangements, other than those properly reported in the pension trust fund or permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.

The *agency fund* is used to account for assets held in a purely custodial capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

D. Cash and Investments

Government-Wide and Fund Financial Statements

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition. Investments are carried at fair value.

E. Accounts Receivable

Government-Wide and Fund Financial Statements

The recognition of revenue related to accounts receivable reported in the government-wide financial statements and the proprietary funds and fiduciary funds financial statements are reported under the accrual basis of accounting. The recognition of revenue related to accounts receivable reported in the governmental funds financial statements are reported under the modified accrual basis of accounting.

Real Estate, Personal Property Taxes and Tax Liens

Real estate and personal property taxes are levied and based on values assessed on January 1st of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on August 1st, November 1st, February 1st and May 1st and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year of the levy.

Real estate tax liens are processed on delinquent properties and are recorded as receivables in the fiscal year they are processed.

Real estate receivables are secured via the tax lien process and are considered 100% collectible. Accordingly, an allowance for uncollectibles is not reported.

Personal property taxes cannot be secured through the lien process. The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

Motor Vehicle Excise

Motor vehicle excise taxes are assessed annually for each vehicle registered in the Town and are recorded as receivables in the fiscal year of the levy. The Commonwealth is responsible for reporting the number of vehicles

registered and the fair values of those vehicles. The tax calculation is the fair value of the vehicle multiplied by \$25 per \$1,000 of value.

The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

Water and Sewer Fees

User fees are levied monthly based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Water and sewer fees and liens are recorded as receivables in the fiscal year of the levy.

Since the receivables are subject to the lien process, these accounts are considered 100% collectible and therefore do not report an allowance for uncollectibles.

Departmental and Other

Departmental and other receivables are recorded as receivables in the fiscal year earned. The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

Intergovernmental

Various federal and state grants for operating and capital purposes are applied for and received annually. For non-expenditure driven grants, receivables are recorded as soon as all eligibility requirements imposed by the provider have been met. For expenditure driven grants, receivables are recorded when the qualifying expenditures are incurred and all other grant requirements are met.

These receivables are considered 100% collectible and therefore do not report an allowance for uncollectibles.

F. Inventories

Government-Wide and Fund Financial Statements

Inventories of the governmental funds and the water enterprise fund are recorded as expenditures at the time of purchase. Such inventories are not material in total to the government-wide and fund financial statements, and therefore are not reported.

G. Capital Assets

Government-Wide and Proprietary Fund Financial Statements

Capital assets, which include land, land improvements, buildings, machinery and equipment, and infrastructure (e.g., roads, water mains, sewer mains, and similar items), are reported in the applicable governmental or business-type activity column of the government-wide financial statements, and the proprietary fund financial statements. Capital assets are recorded at historical cost, or at estimated historical cost, if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation. Except for the capital assets of the governmental activities column in the government-wide financial statements, construction period interest is capitalized on constructed capital assets.

All purchases and construction costs in excess of \$5,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

Capital assets are depreciated on a straight-line basis. The estimated useful lives of capital assets being depreciated are as follows:

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Buildings.....	20-40
Machinery and equipment.....	5-15
Infrastructure.....	20-50
Vehicles.....	5-10

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized and are treated as expenses when incurred. Improvements are capitalized.

Governmental Fund Financial Statements

Capital asset costs are recorded as expenditures in the acquiring fund in the fiscal year of the purchase.

H. Interfund Receivables and Payables

During the course of its operations, transactions occur between and within individual funds that may result in amounts owed between funds.

Government-Wide Financial Statements

Transactions of a buyer/seller nature between and within governmental funds are eliminated from the governmental activities in the statement of net assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of net assets as "internal balances".

Fund Financial Statements

Transactions of a buyer/seller nature between and within funds are *not* eliminated from the individual fund statements. Receivables and payables resulting from these transactions are classified as "Due from other funds" or "Due to other funds" on the balance sheet.

I. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as transfers in and transfers out.

Government-Wide Financial Statements

Transfers between and within governmental funds are eliminated from the governmental activities in the statement of net assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of activities as "Transfers, net".

J. Deferred Revenue

Deferred revenue at the governmental fund financial statement level represents billed receivables that do not meet the available criterion in accordance with the current financial resources measurement focus and the modified accrual basis of accounting.

K. Net Assets and Fund Equity

Government-Wide Financial Statements (Net Assets)

Net assets are reported as restricted when amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use.

Net assets have been “restricted for” the following:

“Loans” represents the Town’s Community Development loans receivable balances.

“Permanent funds - expendable” represents the amount of realized and unrealized investment earnings of donor restricted trusts. The donor restrictions and trustee policies only allow the trustee to authorize spending of the realized investment earnings that support governmental programs.

“Permanent funds - nonexpendable” represents the endowment portion of donor restricted trusts that support governmental programs.

“Gifts and grants” represents amounts held for school and other Town grants, and for gift funds that have restrictions placed on assets from outside parties.

Fund Financial Statements (Fund Balances)

Fund balances are reserved for amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use. Designations of fund balance represent tentative management plans that are subject to change.

Fund balances have been “reserved for” the following:

“Encumbrances and continuing appropriations” represents amounts obligated under purchase orders, contracts and other commitments for expenditures that are being carried over to the ensuing fiscal year.

“Perpetual permanent funds” represents amounts held in trust for which only investment earnings may be expended.

L. Long-term debt

Government-Wide and Proprietary Fund Financial Statements

Long-term debt is reported as liabilities in the government-wide and proprietary fund statement of net assets. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

Governmental Fund Financial Statements

The face amount of governmental funds long-term debt is reported as other financing sources. Bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond premiums are reported as other financing sources and bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual bond proceeds received, are reported as general government expenditures.

M. Investment Income

Excluding the permanent funds, investment income derived from major and non-major governmental funds is legally assigned to the general fund unless otherwise directed by Massachusetts General Law (MGL).

N. Compensated Absences

Employees are granted vacation leave in varying amounts based on collective bargaining agreements, state laws and executive policies.

Government-Wide and Proprietary Fund Financial Statements

Vested or accumulated vacation leave is reported as a liability and expensed as incurred.

Governmental Fund Financial Statements

Vested or accumulated vacation leave, which will be liquidated with expendable available financial resources, is reported as an expenditure and fund liability.

O. Use of Estimates

Government-Wide and Fund Financial Statements

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure for contingent assets and liabilities at the date of the basic financial statements and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

P. Fund Deficits

Several individual fund deficits exist at June 30, 2010 within the capital project funds. These deficits will be funded through debt proceeds in future fiscal years.

Q. Total Column

Government-Wide Financial Statements

The total column presented on the government-wide financial statements represents consolidated financial information.

Fund Financial Statements

The total column on the fund financial statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

NOTE 2 – CASH AND INVESTMENTS

A cash and investment pool is maintained that is available for use by all funds. Each fund type's portion of this pool is displayed on the balance sheet as "Cash and cash equivalents". The deposits and investments of the trust funds are held separately from those of other funds.

Statutes authorize the investment in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool (the Pool). The Treasurer may also invest trust funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the Commonwealth.

The Pool meets the criteria of an external investment pool. The Pool is administered by the Massachusetts Municipal Depository Trust (MMDT), which was established by the Treasurer of the Commonwealth who serves as Trustee. The fair value of the position in the Pool is the same as the value of the Pool shares.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Town of Orange's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk. At fiscal year-end, the carrying amount of deposits totaled \$2,384,998 and the bank balance totaled \$2,518,090. Of the bank balance, \$938,681 was covered by Federal Depository Insurance and \$1,579,409 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

As of June 30, 2010, the Town of Orange had the following investments:

<u>Other Investments:</u>	
Equity Securities.....	\$ 126,160
MMDT.....	<u>1,116,689</u>
Total Investments.....	\$ <u><u>1,242,849</u></u>

The Town participates in MMDT, which maintains a cash portfolio and a short-term bond fund with combined average maturities of approximately 3 months.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the Town will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. At June 30, 2010 the Town's investments as listed above are not subject to custodial credit risk.

The Town does not have an investment policy for custodial credit risk.

Interest Rate Risk

The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The Town has not adopted a formal policy related to Credit Risk.

Concentration of Credit Risk

The Town places no limit on the amount the government may invest in any one issuer.

NOTE 3 – RECEIVABLES

At June 30, 2010, receivables for the governmental funds and the internal service fund in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 186,298	\$ (20,613)	\$ 165,685
Tax liens	256,359	-	256,359
Motor vehicle and other excise taxes.....	93,483	(31,472)	62,011
Departmental and other.....	579,977	(80,872)	499,105
Special assessments.....	79,545	-	79,545
Intergovernmental.....	504,856	-	504,856
Loans.....	191,478	-	191,478
Total.....	<u>\$ 1,891,996</u>	<u>\$ (132,957)</u>	<u>\$ 1,759,039</u>

At June 30, 2010, receivables for the water and sewer enterprise funds consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
User fees.....	\$ 321,795	\$ -	\$ 321,795
Intergovernmental.....	24,461	-	24,461
Total.....	<u>\$ 346,256</u>	<u>\$ -</u>	<u>\$ 346,256</u>

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of *deferred revenue* reported in the governmental funds were as follows:

	General Fund	Other Governmental Funds	Total
<u>Receivable and other asset type:</u>	<u> </u>	<u> </u>	<u> </u>
Real estate and personal property taxes.....	\$ 105,705	\$ -	\$ 105,705
Tax liens.....	256,359	-	256,359
Tax foreclosures.....	108,594	-	108,594
Motor vehicle and other excise taxes.....	62,011	-	62,011
Departmental and other.....	372,042	-	372,042
Special assessments.....	53,275	26,270	79,545
Intergovernmental.....	-	76,184	76,184
Loans.....	-	191,478	191,478
	<u> </u>	<u> </u>	<u> </u>
Total.....	\$ 957,986	\$ 293,932	\$ 1,251,918

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 2,253,056	\$ -	\$ -	\$ 2,253,056
Construction in progress.....	1,199,997	1,657,497	(302,035)	2,555,459
Total capital assets not being depreciated.....	<u>3,453,053</u>	<u>1,657,497</u>	<u>(302,035)</u>	<u>4,808,515</u>
<u>Capital assets being depreciated:</u>				
Buildings.....	12,823,573	-	-	12,823,573
Machinery and equipment.....	4,757,113	363,931	-	5,121,044
Infrastructure.....	26,637,275	1,420,858	-	28,058,133
Vehicles.....	199,089	21,070	-	220,159
Total capital assets being depreciated.....	<u>44,417,050</u>	<u>1,805,859</u>	<u>-</u>	<u>46,222,909</u>
<u>Less accumulated depreciation for:</u>				
Buildings.....	(6,143,185)	(300,007)	-	(6,443,192)
Machinery and equipment.....	(3,046,691)	(307,777)	-	(3,354,468)
Infrastructure.....	(14,962,687)	(803,678)	-	(15,766,365)
Vehicles.....	(137,136)	(11,142)	-	(148,278)
Total accumulated depreciation.....	<u>(24,289,699)</u>	<u>(1,422,604)</u>	<u>-</u>	<u>(25,712,303)</u>
Total capital assets being depreciated, net.....	<u>20,127,351</u>	<u>383,255</u>	<u>-</u>	<u>20,510,606</u>
Total governmental activities capital assets, net.....	<u>\$ 23,580,404</u>	<u>\$ 2,040,752</u>	<u>\$ (302,035)</u>	<u>\$ 25,319,121</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Water Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 53,522	\$ -	\$ -	\$ 53,522
Construction in progress.....	231,225	-	-	231,225
Total capital assets not being depreciated.....	284,747	-	-	284,747
<u>Capital assets being depreciated:</u>				
Buildings.....	287,371	-	-	287,371
Machinery and equipment.....	665,781	-	-	665,781
Infrastructure.....	7,196,940	6,773	-	7,203,713
Vehicles.....	88,078	9,990	-	98,068
Total capital assets being depreciated.....	8,238,170	16,763	-	8,254,933
<u>Less accumulated depreciation for:</u>				
Buildings.....	(97,471)	(3,466)	-	(100,937)
Machinery and equipment.....	(333,180)	(23,385)	-	(356,565)
Infrastructure.....	(2,329,240)	(79,608)	-	(2,408,848)
Vehicles.....	(53,433)	(13,365)	-	(66,798)
Total accumulated depreciation.....	(2,813,324)	(119,824)	-	(2,933,148)
Total capital assets being depreciated, net.....	5,424,846	(103,061)	-	5,321,785
Total water activities capital assets, net.....	\$ 5,709,593	\$ (103,061)	\$ -	\$ 5,606,532

	Beginning Balance	Increases	Decreases	Ending Balance
Sewer Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 24,741	\$ -	\$ -	\$ 24,741
Construction in progress.....	341,911	24,800	-	366,711
Total capital assets not being depreciated.....	<u>366,652</u>	<u>24,800</u>	<u>-</u>	<u>391,452</u>
<u>Capital assets being depreciated:</u>				
Buildings.....	1,289,311	-	-	1,289,311
Machinery and equipment.....	369,993	-	-	369,993
Infrastructure.....	2,045,514	-	-	2,045,514
Vehicles.....	26,617	-	-	26,617
Total capital assets being depreciated.....	<u>3,731,435</u>	<u>-</u>	<u>-</u>	<u>3,731,435</u>
<u>Less accumulated depreciation for:</u>				
Buildings.....	(1,189,808)	(9,902)	-	(1,199,710)
Machinery and equipment.....	(212,460)	(25,548)	-	(238,008)
Infrastructure.....	(636,267)	(44,076)	-	(680,343)
Vehicles.....	(26,617)	-	-	(26,617)
Total accumulated depreciation.....	<u>(2,065,152)</u>	<u>(79,526)</u>	<u>-</u>	<u>(2,144,678)</u>
Total capital assets being depreciated, net.....	<u>1,666,283</u>	<u>(79,526)</u>	<u>-</u>	<u>1,586,757</u>
Total sewer activities capital assets, net.....	<u>\$ 2,032,935</u>	<u>\$ (54,726)</u>	<u>\$ -</u>	<u>\$ 1,978,209</u>

Depreciation was charged to the functions/programs of the primary government as follows:

Governmental Activities:

General government.....	\$ 29,409
Public safety.....	217,186
Education.....	253,409
Public works.....	869,667
Airport.....	36,664
Human services.....	11,464
Culture and recreation.....	<u>4,805</u>

Total depreciation expense - governmental activities..... \$ 1,422,604

Business-Type Activities:

Water.....	\$ 119,824
Sewer.....	<u>79,526</u>

Total depreciation expense - business-type activities..... \$ 199,350

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Due to/from other funds

As of June 30, 2010, the Town has an interfund receivable/payable of \$564,524 which exists between the general fund and the internal service fund. The purpose of this balance is to cover short-term cash needs and an accumulated deficit of approximately \$416,000 in the healthcare trust fund that will be funded from operations and long-term borrowing in fiscal year 2011.

Interfund transfers

Interfund transfers for the fiscal year ended June 30, 2010, are summarized as follows:

Transfers Out:	Transfers In:		
	General Fund	Nonmajor Governmental Funds	Total
Nonmajor Governmental Funds.....	\$ 58,111	\$ 25,760	\$ 83,871 (1)

- (1) Represents budgeted transfers out of various special revenue funds to the general fund. Also represents transfers from nonmajor special revenue revolving funds to nonmajor other special revenue funds for airport funding.

NOTE 6 – CAPITAL LEASES

The Town has entered into a lease agreement to finance the acquisition of fire department turnout gear and three police vehicles. These lease agreement qualifies as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payment as of the inception date. The following identifies the asset acquired through a capital lease agreement:

<u>Asset:</u>	Governmental Activities
Machinery and equipment.....	\$ 812,338
Less: accumulated depreciation.....	(234,589)
	\$ 577,749

The future minimum lease obligation and the net present value of the minimum payments at June 30, 2010, are as follows:

Fiscal Years Ending June 30,	Governmental Activities
2011.....	\$ 108,978
2012.....	126,476
2013.....	120,758
2014.....	120,758
2015.....	<u>49,185</u>
Total minimum lease payments.....	<u>526,155</u>
Less: amounts representing interest.....	<u>(56,916)</u>
Present value of minimum lease payments.....	<u>\$ 469,239</u>

NOTE 7 – SHORT-TERM FINANCING

Short-term debt may be authorized and issued to fund the following:

- Current operating costs prior to the collection of revenues through issuance of revenue or tax anticipation notes (RANS or TANS).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS).

Short-term loans are general obligations and carry maturity dates that are limited by statute. Interest expenditures and expenses for short-term borrowings are accounted for in the general fund and the water enterprise fund, respectively.

Details related to the short-term debt activity for the fiscal year ended June 30, 2010, are as follows:

Type	Purpose	Rate (%)	Due Date	Balance at June 30, 2009	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2010
Governmental Funds:							
BAN	Highway Garage.....	2.46	9/25/09	\$ 49,000	\$ -	\$ 49,000	\$ -
BAN	Municipal Purpose Loan.....	2.65	8/12/09	835,000	-	835,000	-
BAN	Municipal Purpose Loan.....	1.39	12/22/09	-	1,485,000	1,485,000	-
RAN	Revenue Anticipation Loan.....	1.62	1/6/10	-	1,300,000	1,300,000	-
BAN	Tully Fire Station.....	1.28	2/22/10	-	1,435,000	1,435,000	-
RAN	Revenue Anticipation Loan.....	1.75	4/6/10	-	400,000	400,000	-
RAN	Revenue Anticipation Loan.....	1.14	6/30/10	-	600,000	600,000	-
Total Governmental Funds.....				<u>\$ 884,000</u>	<u>\$ 5,220,000</u>	<u>\$ 6,104,000</u>	<u>\$ -</u>

NOTE 8 – LONG-TERM DEBT

Under the provisions of Chapter 44, Section 10, Municipal Law authorizes indebtedness up to a limit of 5% of the equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit". In addition, however, debt may be authorized in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit".

Details related to the outstanding indebtedness at June 30, 2010, and the debt service requirements are as follows:

Bonds and Notes Payable Schedule – Governmental Funds

Project	Interest Rate (%)	Outstanding at June 30, 2009	Issued	Redeemed	Outstanding at June 30, 2010
Airpark Industrial Park.....	5.0	\$ 23,400	\$ -	\$ 11,700	\$ 11,700
Elementary School FHA USDA Loan.....	6.0	33,120	-	33,120	-
Capping & Closing Landfill.....	4.5 - 4.6	540,000	-	60,000	480,000
Community Septic Management Program.....	4.0 - 5.0	64,136	-	6,414	57,722
State House Note - School Equipment.....	3.5	12,000	-	12,000	-
Highway Sander.....	4.4	55,800	-	18,600	37,200
Landfill Compactor Truck.....	4.4	52,200	-	17,400	34,800
Fire Station Bond.....	4.0	-	1,335,000	-	1,335,000
Street Improvements.....	3.5	-	50,000	-	50,000
MWPAT Wastewater Management Plan.....	(1)	-	350,000	-	350,000
Total.....		\$ 780,656	\$ 1,735,000	\$ 159,234	\$ 2,356,422

(1) The interest rate on this borrowing has not yet been determined.

Debt service requirements for principal and interest for Governmental bonds payable in future fiscal years are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011.....	\$ 157,154	\$ 83,252	\$ 240,406
2012.....	146,076	77,203	223,279
2013.....	110,722	77,374	188,096
2014.....	111,394	67,751	179,145
2015.....	112,094	63,613	175,707
2016.....	102,820	59,447	162,267
2017.....	103,576	55,603	159,179
2018.....	104,363	51,731	156,094
2019.....	45,181	47,832	93,013
2020.....	39,618	46,822	86,440
2021.....	40,503	45,937	86,440
2022.....	41,423	45,017	86,440
2023.....	42,380	44,060	86,440
2024.....	43,375	43,065	86,440
2025.....	44,410	42,030	86,440
2026.....	45,487	40,953	86,440
2027.....	46,606	39,834	86,440
2028.....	47,770	38,670	86,440
2029.....	48,981	37,459	86,440
2030.....	50,240	36,200	86,440
2031.....	34,050	34,890	68,940
2032.....	35,412	33,528	68,940
2033.....	36,829	32,111	68,940
2034.....	38,302	30,638	68,940
2035.....	39,834	29,106	68,940
2036.....	41,427	27,513	68,940
2037.....	43,084	25,856	68,940
2038.....	44,808	24,132	68,940
2039.....	46,600	22,340	68,940
2040.....	48,464	20,476	68,940
2041.....	50,402	18,538	68,940
2042.....	52,418	16,522	68,940
2043.....	54,515	14,425	68,940
2044.....	56,696	12,244	68,940
2045.....	58,964	9,976	68,940
2046.....	61,322	7,618	68,940
2047.....	63,775	5,165	68,940
2048.....	65,347	1,307	66,654
Total Governmental.....	\$ <u>2,356,422</u>	\$ <u>1,410,238</u>	\$ <u>3,766,660</u>

Bonds and Notes Payable Schedule – Sewer Enterprise Fund

Project	Interest Rate (%)	Outstanding at June 30, 2009	Issued	Redeemed	Outstanding at June 30, 2010
Brookside Sewer Project.....	4.5 - 4.6	\$ 90,000	\$ -	\$ 10,000	\$ 80,000
WPAT Sewer Facility Plan.....	4.0 - 5.0	107,000	-	9,900	97,100
General Obligation Sewer Bond.....	4.25	380,000	-	9,744	370,256
Total.....		\$ 577,000	\$ -	\$ 29,644	\$ 547,356

Debt service requirements for principal and interest for Sewer Enterprise Fund bonds payable in future fiscal years are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011.....	\$ 29,944	\$ 23,813	\$ 53,757
2012.....	30,244	22,408	52,652
2013.....	25,344	26,221	51,565
2014.....	30,644	20,112	50,756
2015.....	31,044	18,669	49,713
2016.....	31,344	17,207	48,551
2017.....	31,744	15,729	47,473
2018.....	32,044	14,240	46,284
2019.....	22,444	12,741	35,185
2020.....	9,744	12,009	21,753
2021.....	9,744	11,595	21,339
2022.....	9,744	11,181	20,925
2023.....	9,744	10,766	20,510
2024.....	9,744	10,352	20,096
2025.....	9,744	9,938	19,682
2026.....	9,744	9,524	19,268
2027.....	9,744	9,110	18,854
2028.....	9,744	8,696	18,440
2029.....	9,744	8,282	18,026
2030.....	9,744	7,868	17,612
2031.....	9,744	7,453	17,197
2032.....	9,744	7,039	16,783
2033.....	9,744	6,625	16,369
2034.....	9,744	6,211	15,955
2035.....	9,744	5,797	15,541
2036.....	9,744	5,383	15,127
2037.....	9,744	4,969	14,713
2038.....	9,744	4,555	14,299
2039.....	9,744	4,141	13,885
2040.....	9,744	3,726	13,470
2041.....	9,744	3,312	13,056
2042.....	9,744	2,898	12,642
2043.....	9,744	2,484	12,228
2044.....	9,744	2,070	11,814
2045.....	9,744	1,656	11,400
2046.....	9,744	1,242	10,986
2047.....	9,744	828	10,572
2048.....	9,728	413	10,141
Total Sewer.....	<u>\$ 547,356</u>	<u>\$ 351,263</u>	<u>\$ 898,619</u>

The Town is scheduled to be subsidized by the Massachusetts Water Pollution Abatement Trust (MWPAT) on a periodic basis for \$24,461 of principal and \$35,903 for interest costs. Thus, net MWPAT loan repayments, including interest, are scheduled to be \$94,458. Since the Town is legally obligated for the total amount of the debt, such amounts have been reported in the accompanying basic financial statements. The fiscal year 2010 principal and interest subsidy totaled \$2,967 and \$5,569, respectively.

The Town is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2010, the Town had the following authorized and unissued debt:

Purpose	Amount
Tully Fire Station Construction.....	\$ 100,000
Energy Savings Improvements.....	2,000,000
Butterfield School Roof.....	135,000
Total.....	<u>\$ 2,235,000</u>

Changes in Long-term Liabilities

During the fiscal year ended June 30, 2010, the following changes occurred in long-term liabilities:

	Balance June 30, 2009	Additions	Reductions	Balance June 30, 2010	Current Portion
Governmental Funds					
Long-Term Bonds and Notes.....	\$ 780,656	\$ 1,735,000	\$ 159,234	\$ 2,356,422	\$ 157,154
Other Postemployment Benefits.....	831,839	1,538,854	733,157	1,637,536	-
Compensated Absences.....	175,450	194,820	175,450	194,820	194,820
Capital Lease Obligations.....	264,902	271,073	66,736	469,239	90,444
Total governmental activity long-term liabilities.....	<u>\$ 2,052,847</u>	<u>\$ 3,739,747</u>	<u>\$ 1,134,577</u>	<u>\$ 4,658,017</u>	<u>\$ 442,418</u>
Enterprise Funds					
Long-Term Bonds and Notes.....	\$ 577,000	-	\$ 29,644	\$ 547,356	\$ 29,944
Other Postemployment Benefits.....	44,160	81,675	38,912	86,923	-
Compensated Absences.....	19,014	23,366	19,104	23,366	23,366
Total business-type activity long-term liabilities.....	<u>\$ 640,174</u>	<u>\$ 105,041</u>	<u>\$ 87,660</u>	<u>\$ 657,645</u>	<u>\$ 53,310</u>

NOTE 9 – RISK FINANCING

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. The amount of claim settlements has not exceeded insurance coverage in any of the previous three fiscal years.

The Town was self-insured for its health insurance activities until converting to a premium-based plan beginning April 1, 2010. The Town continues to self-insure its dental benefits. Health and dental insurance activities are accounted for in the internal service fund where revenues are recorded when earned and expenses are recorded when the liability is incurred.

Health and Dental Insurance for 2009 and Dental Insurance for 2010

The estimate of Incurred But Not Reported (IBNR) claims based on an estimate of claims incurred but unpaid at year end. At June 30, 2010, the amount of the liability for dental claims totaled \$8,712. This liability is the best estimate based on available information. Changes in the reported liability since July 1, 2008, are as follows:

	Balance at Beginning of Fiscal Year		Current Year Claims and Changes in Estimate		Claims Payments		Balance at Fiscal Year-End
Fiscal Year 2009.....	\$ 160,000	\$	2,179,771	\$	(2,161,131)	\$	178,640
Fiscal Year 2010.....	178,640		2,061,537		(2,231,465)		8,712

NOTE 10 – PENSION PLAN

Plan Description - The Town contributes to the Franklin Regional Retirement System "System", a cost-sharing multiple-employer defined benefit pension plan administered by the Franklin County Retirement Board. Substantially all employees are members of the System, except for public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System, to which the Town does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled approximately \$1,186,000 for the fiscal year ended June 30, 2010, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Franklin County Retirement Board and are borne by the System. The System issues a publicly available un-audited financial report in accordance with guidelines established by the Commonwealth's PERAC. That report may be obtained by contacting the System located at 278 Main Street, Suite 311, Greenfield, MA 01301.

Funding Policy - Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. Administrative expenses are funded through investment earnings. The current and two preceding fiscal years apportionment of the annual pension cost between the two employers required the Town to contribute \$714,967, \$687,182, and \$658,662 for fiscal years ended June 30, 2010, 2009, and 2008, respectively. Chapter 32 of the MGL governs the contributions of plan members and the Town.

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description – The Town of Orange administers a single-employer defined benefit healthcare plan ("the Retiree Health Plan"). The plan provides lifetime healthcare, dental, and life insurance for eligible retirees and their spouses through the Town's group health insurance plan, which covers both active and retired members. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions of the plan. Benefit

provisions are negotiated between the Town and the unions representing Town employees and are renegotiated each bargaining period. The Retiree Health Plan does not issue a publicly available financial report.

At June 30, 2010, the Plan's membership consisted of the following:

Current retirees, beneficiaries, and dependents.....	83
Current active members.....	<u>181</u>
Total.....	<u><u>264</u></u>

Funding Policy – Contribution requirements are also negotiated between the Town and union representatives. The required contribution is based on a pay-as-you-go financing requirement. The Town contributes 75 percent of the cost of current-year premiums for eligible retired plan members and their spouses. Plan members receiving benefits contribute the remaining 25 percent of their premium costs. For fiscal year 2010, the Town contributed approximately \$772,000 towards these benefits.

Annual OPEB Cost and Net OPEB Obligation – The Town's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The components of the Town's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town's net OPEB obligation are summarized in the following table:

Annual required contribution.....	\$ 1,651,548
Interest on net OPEB obligation.....	70,080
Adjustments to annual required contribution.....	<u>(101,099)</u>
Annual OPEB cost (expense).....	1,620,529
Contributions made.....	<u>(772,069)</u>
Increase in net OPEB obligation.....	848,460
Net OPEB obligation--beginning of year.....	<u>875,999</u>
Net OPEB obligation--end of year.....	<u><u>\$ 1,724,459</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2010 and the preceding year was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2010	\$ 1,620,529	48%	\$ 1,724,459
6/30/2009	1,359,339	36%	875,999

Funded Status and Funding Progress – The funded status of the Plan as of the most recent actuarial valuation date, June 30, 2009, is as follows:

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
7/1/2009	\$ -	\$ 21,921,987	\$ 21,921,987	0%	\$ 7,628,686	287.4%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following additional information is provided as of the latest actuarial valuation:

Valuation date.....	July 1, 2009
Actuarial cost method.....	Projected Unit Credit
Amortization method.....	Amortized as level dollar amount over 30 years at transition
Remaining amortization period.....	28 years at July 1, 2010
Asset valuation method.....	Market Value

Actuarial Assumptions:

Investment rate of return.....	4.00% per annum
Medical/drug cost trend rate.....	11% graded to 5% in year 2015
Dental.....	8.5% graded to 5% in year 2015

Plan Membership:

NOTE 12 – COMMITMENTS

The Town is currently committed to fund multiple projects totaling approximately \$2,235,000. Two million of this amount is for projects relating to energy saving improvements and the remainder is for the completion of the new Tully Fire Station and for the Butterfield School roof project.

NOTE 13 – CONTINGENCIES

The Town participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2010, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although it is expected such amounts, if any, to be immaterial.

Various legal actions and claims are pending. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2010, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2010.

NOTE 14 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During fiscal year 2010, the following GASB pronouncements were implemented:

- The GASB issued Statement #57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. The standards in this statement permits an agent employer that has an individual employer OPEB plan with fewer than 100 members to use an alternative measurement method to produce actuarially based information for purposes of financial reporting, regardless of the number of total plan members in the agent multiple-employer OPEB plan in which it participates. Management elected to implement this standard early and this standard did not impact the basic financial statements.
- The GASB issued Statement #58, Accounting and Financial Reporting for Chapter 9 Bankruptcies. The standards in this statement provide guidance for bankrupt state and local governments by establishing requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities and for classifying changes in those items and related costs. Management elected to implement this standard early and this standard did not impact the basic financial statements.

Future Implementation of GASB Pronouncements:

- The GASB issued Statement #54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which is required to be implemented in fiscal year 2011. Management believes this pronouncement will require additional disclosure and will impact the basic financial statements.
- The GASB issued Statement #59, *Financial Instruments Omnibus*. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The provisions of this Statement are effective for financial statement periods beginning after June 15, 2010.

Required Supplementary Information

General Fund Budgetary Comparison Schedule

The General Fund is the general operating fund of the Town. It is used to account for all the financial resources, except those required to be accounted for in another fund.

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
	Original Budget	Final Budget			
REVENUES:					
Real estate and personal property taxes, net of tax refunds.....	\$ 7,230,633	\$ 7,230,633	\$ 7,223,588	\$ -	\$ (7,045)
Tax liens.....	-	-	60,825	-	60,825
Motor vehicle and other excise taxes.....	607,722	607,722	575,703	-	(32,019)
Charges for services.....	147,972	147,972	140,557	-	(7,415)
Penalties and interest on taxes.....	102,213	102,213	89,473	-	(12,740)
Payments in lieu of taxes.....	3,343	3,343	3,343	-	-
Intergovernmental.....	7,314,401	7,314,401	7,464,005	-	149,604
Departmental and other.....	826,509	826,509	805,579	-	(20,930)
Investment income.....	27,989	27,989	8,669	-	(19,320)
Miscellaneous.....	258,446	258,446	279,299	-	20,853
TOTAL REVENUES.....	16,519,228	16,519,228	16,651,041	-	131,813
EXPENDITURES:					
Current:					
General government.....	739,815	772,510	753,828	2,246	16,436
Public safety.....	1,924,312	2,062,169	1,999,027	7,646	55,496
Education.....	8,744,354	8,394,103	8,382,103	-	12,000
Public works.....	992,705	972,421	927,890	1,919	42,612
Airport.....	144,476	151,743	135,208	-	16,535
Human services.....	135,607	197,308	191,036	-	6,272
Culture and recreation.....	281,028	258,328	247,559	1,145	9,624
Pension benefits.....	714,967	714,967	714,967	-	-
Employee benefits.....	2,299,332	2,204,761	2,179,610	5,000	20,151
State and county charges.....	591,179	591,179	591,179	-	-
Debt service:					
Principal.....	189,820	208,234	208,234	-	-
Interest.....	280,208	281,408	271,900	-	9,508
TOTAL EXPENDITURES.....	17,037,803	16,809,131	16,602,541	17,956	188,634
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(518,575)	(289,903)	48,500	(17,956)	320,447
OTHER FINANCING SOURCES (USES):					
Transfers in.....	245,573	245,573	245,573	-	-
TOTAL OTHER FINANCING SOURCES (USES).....	245,573	245,573	245,573	-	-
NET CHANGE IN FUND BALANCE.....	(273,002)	(44,330)	294,073	(17,956)	320,447
BUDGETARY FUND BALANCE, Beginning of year.....	83,293	83,293	83,293	-	-
BUDGETARY FUND BALANCE, End of year.....	\$ (189,709)	\$ 38,963	\$ 377,366	\$ (17,956)	\$ 320,447

See notes to required supplementary information

Retirement System Schedules of Funding Progress and Employer Contributions

The schedule of funding progress, presented as required supplementary information, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The schedule of employer contributions, presented as required supplementary information, presents multiyear trend information for required and actual contributions relating to the cost-sharing plan as a whole, of which the Town is one participating employer, as well as the Town's proportionate share of the plan's annual contributions.

**Franklin Regional Retirement System
Schedule of Funding Progress**

(Dollars in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/10	\$ 79,459	\$ 119,349	\$ 39,890	66.6%	\$ 29,457	135.4%
01/01/08	77,859	105,972	28,113	73.5%	30,302	92.8%
01/01/06	61,539	91,823	30,284	67.0%	26,229	115.5%
01/01/03	41,299	72,770	31,471	56.8%	23,638	133.1%
01/01/01	42,002	57,235	15,233	73.4%	17,923	85.0%
01/01/98	41,568	64,535	22,967	64.4%	15,254	150.6%

The Town's share of the UAAL, as of January 1, 2010, is approximately 14.93%

See notes to required supplementary information.

**Franklin Regional Retirement System
Schedule of Employer Contributions**

Plan Year Ended December 31	System Wide			Town of Orange	
	Annual Required Contributions	(A) Actual Contributions	Percentage Contributed	(B) Actual Contributions	(B/A) Town's Percentage of System Wide Actual Contributions
2010	\$ 4,789,021	\$ 4,789,021	100%	\$ 714,967	14.93%
2009	4,645,462	4,645,462	100%	687,182	14.79%
2008	4,487,246	4,487,246	100%	658,662	14.68%
2007	4,295,275	4,295,275	100%	633,077	14.74%
2006	4,127,192	4,127,192	100%	637,337	15.44%
2005	3,923,420	3,923,420	100%	557,994	14.22%

The Town's Actual Contributions equaled 100% of its required contributions for each year presented.

See notes to required supplementary information.

Other Postemployment Benefits Plan Schedules

The Schedule of Funding progress compares, over time, the actuarial accrued liability for benefits with the actuarial value of accumulated plan assets.

The Schedule of Employer Contributions presents multi-year trend information for the required and actual contributions relating to the plan.

The Schedule of Actuarial Methods and Assumptions presents factors that significantly affect the identification of trends in the amounts reported.

OTHER POSTEMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
7/1/2009	\$ -	\$ 21,921,987	\$ 21,921,987	0%	\$ 7,628,686	287.4%
7/1/2007	-	13,584,108	13,584,108	0%	6,360,662	213.6%

Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contribution (ARC)	Actual Contributions Made	Percentage of the ARC Contributed
2010	\$ 1,651,548	\$ 772,069	47%
2009	1,359,339	483,340	36%

The Town implemented GASB Statement No. 45 for the fiscal year ended June 30, 2009.

See notes to required supplementary information.

OTHER POSTEMPLOYMENT BENEFIT PLAN
ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial Methods:

Valuation date.....	July 1, 2009
Actuarial cost method.....	Projected Unit Credit
Amortization method.....	Amortized as level dollar amount over 30 years at transition
Remaining amortization period.....	28 years at July 1, 2010
Asset valuation method.....	Market Value

Actuarial Assumptions:

Investment rate of return.....	4.00% per annum
Medical/drug cost trend rate.....	11% graded to 5% in year 2015
Dental.....	8.5% graded to 5% in year 2015

Plan Membership:

Current retirees, beneficiaries, and dependents.....	83
Current active members.....	<u>181</u>
Total.....	<u><u>264</u></u>

See notes to required supplementary information.

NOTE A – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITYA. Budgetary Information

Municipal Law requires the adoption of a balanced budget that is approved by Town Meeting. The Finance Committee presents an annual budget to Town Meeting, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. The Town Meeting, which has full authority to amend and/or reject the budget or any line item, adopts the expenditure budget by majority vote.

Increases or transfers between and within departments subsequent to the approval of the annual budget, requires majority Special Town Meeting approval via a special article.

The majority of appropriations are non-continuing which lapse at the end of each fiscal year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior fiscal year be carried forward and made available for spending in the current fiscal year. These carry forwards are included as part of the subsequent fiscal year's original budget.

Generally, expenditures may not exceed the legal level of spending (salaries, expenses and capital) authorized for an appropriation account. However, the payment of debt service is statutorily required, regardless of whether such amounts are appropriated. Additionally, expenditures for disasters, natural or otherwise, and final judgments may exceed the level of spending authorized by two-thirds majority vote of the Board of Selectmen and written approval from the Massachusetts Department of Revenue.

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2010 approved budget authorized approximately \$17 million in appropriations and other amounts to be raised.

The Town Accountant's office has the responsibility to ensure that budgetary control is maintained. Budgetary control is exercised through the accounting system.

B. Budgetary - GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2010, is presented below:

Excess of revenues and other financing sources (uses) over expenditures - budgetary basis.....	\$	294,073
<u>Basis of accounting differences:</u>		
Increase in revenues due to on-behalf payments.....		1,186,148
Increase in expenditures due to on-behalf payments.....		(1,186,148)
Increase in revenues due to MWPAT subsidies.....		2,778
Increase in expenditures due to MWPAT subsidies.....		(2,778)
Net change in revenues in recording 60 day receipts.....		<u>(28,789)</u>
Excess of revenues and other financing sources (uses) over expenditures - GAAP basis.....	\$	<u>265,284</u>

NOTE B – PENSION PLAN

The Town contributes to the Franklin Regional Retirement System ("System"), a cost-sharing, multiple-employer defined benefit pension plan ("Plan") administered by the Franklin County Retirement Board. The System provides retirement, disability, and death benefits to members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the Plan. Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the system wide actuarially determined contribution which is apportioned among the employers based on active covered payroll.

The schedule of funding progress, presented as required supplementary information, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Additionally, the schedule of employer contributions, presented as required supplementary information, presents multiyear trend information for required and actual contributions relating to the cost-sharing plan as a whole, of which the Town is one participating employer, as well as the Town's proportionate share of the plan's annual contributions. This information is designed to be helpful for understanding the scale of the information presented relative to the Town.

The following actuarial methods and assumptions were used in the Retirement System's most recent actuarial valuation:

Valuation Date..... January 1, 2008
 Actuarial Cost Method..... Entry Age Normal Cost Method
 Amortization Method..... Approximate level percent of payroll, closed
 Remaining Amortization Period..... 17 years for the fresh start retirement benefits schedule, 11 years for the 2006 ERI, and 10 years for the 2005 ERI.
 Asset Valuation Method..... Market value

Actuarial Assumptions:
 Investment rate of return..... 8.00%
 Projected salary increases..... 4.75%
 Cost of living adjustments..... 3% for the first \$12,000 of retirement income

Plan Membership:
 Retired participants and beneficiaries receiving benefits..... 404
 Inactive Participants..... 631
 Active participants..... 1,227
 Total..... 2,262